ESTONIA'S FOREIGN TRADE DURING THIRTEEN YEARS

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Estonia's foreign trade has witnessed robust growth during 1994–2006: both the exports and imports of goods have increased by nearly eight times since 1994. The annual growth rates of exports and imports have also been remarkable, reaching double-digit numbers in most years (see Table 1 and Figure 1).

Table 1. Exports and imports in 1994–2006 (EEK m)

	Exports	Export growth (%)	Imports	Import growth (%)	Balance
1994	15,622.9		20,100.4		-4,477.5
1995	19,008.9	21.7	27,425.0	36.4	-8,416.2
1996	21,246.9	11.8	34,666.5	26.4	-13,419.6
1997	31,607.4	48.8	48,868.9	41.0	-17,261.5
1998	37,545.0	18.8	55,215.4	13.0	-17,670.4
1999	36,774.3	-2.1	50,494.7	-8.5	-13,720.4
2000	55,836.8	51.8	72,217.1	43.0	-16,380.3
2001	57,857.1	3.6	75,076.3	4.0	-17,219.1
2002	56,990.6	-1.5	79,471.7	5.9	-22,481.0
2003	62,627.2	9.9	89,426.7	12.5	-26,799.5
2004	74,614.3	19.1	104,877.0	17.3	-30,262.7
2005	96,747.3	29.7	128,365.3	22.4	-31,618.0
2006	119,519.7	23.5	165,298.5	28.8	-45,778.8

Both exports and imports peaked in 2000, when the former increased by over 50% and the latter by over 40%, probably owing to the poor results of the preceding year. Year 1999 was exceptional in trade, since the imports and exports of goods decreased by 8.5% and 2.1%, respectively. Moreover, also GDP growth slowed considerably in 1999. Most probably, the

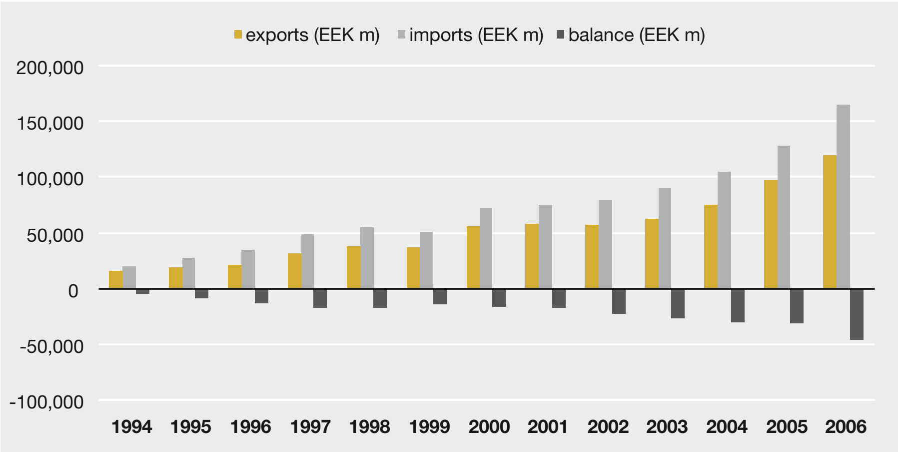

Figure 1. Exports and imports in 1994–2006 (EEK m)

decline in goods turnover partly stemmed from the Russian crisis that started off in the second half of 1998 and that caused a 42% fall in Estonia's exports to Russia. Besides 1999 exports decreased also in 2002, though only 1.5%.

Accession to the European Union gave a new impetus to the imports as well as exports of goods: annual growth rates have reached 20% and more since then. In 2004, part of the import and export growth could be attributed to the changes in data sources and methodology[1], which affected also 2005 figures (as we know, the EU enlargement took place in mid-2004, more precisely May, 1). The year-on-year comparison of 2006/2005 data, however, draws from the same sources and methods. That gives us 29% annual growth rate for imports and 24% for exports. Currently, the overheated economy is showing signs of cooling: in the first nine months of 2007, exports grew only 4.4% and imports 5.2%, year-on-year.

Estonia's foreign trade balance has been in deficit since 1994, whereas within thirteen years the deficit has grown ten times: from 4.5 billion in 1994 to 45.8 billion in 2006. The deficit has been boosted by the large volume and rapid growth of imports, which has been driven by strong domestic demand.

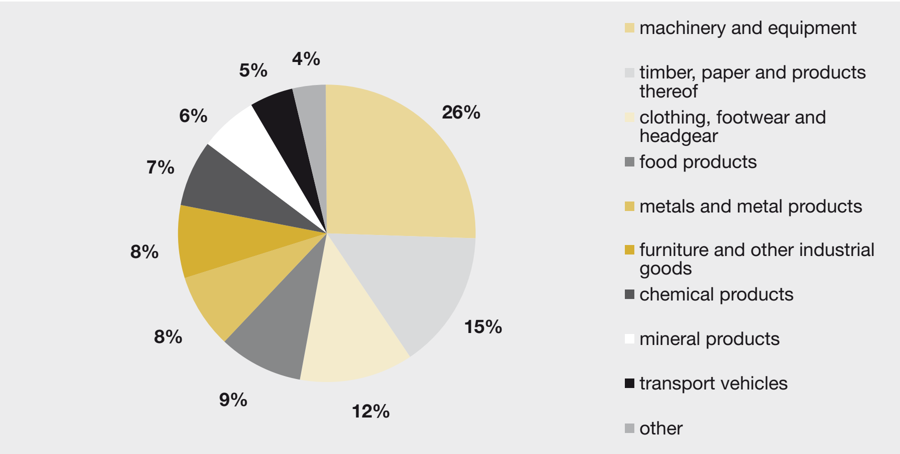

Figure 2. Structure of exports in 1994–2006

[1] Since May 1, 2004, foreign trade statistics is based on the combination of two reporting systems. Trade with non-EU countries is still calculated on the basis of customs declarations submitted to the Tax and Customs Board (the so-called Extrastat), whereas trade with other EU countries is registered through the so-called Intrastat survey organised by Statistics Estonia. While Extrastat still enables the use of the special trade system, which excludes trade through customs warehouses, then Intrastat provides no way of excluding goods moving through intermediate warehouses that actually do not reach the Estonian domestic market, thus rather reflecting the principles of the general trade system. Therefore, the general level of both imports and exports of goods is higher than in previous periods and this peculiarity has to be taken into account when comparing different years.

Considering Estonia's trade by major goods groups, we can see that the majority of import and export transactions made during the thirteen years under review involve machinery and electrical equipment. This group accounted for 30% of imports and 26% of exports (see Figures 2 and 3). Timber and timber products ranked second in exports with 15%; clothing (textile products, footwear, fur etc.) placed third with 12%. Regarding imports, machinery and equipment were followed by chemical products (12%), and transport vehicles and food products (both 10%).

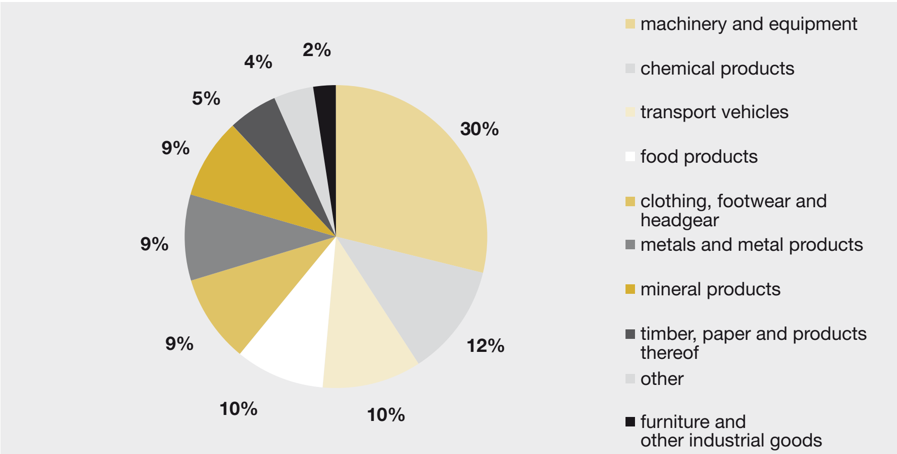

Figure 3. Structure of imports in 1994–2006

Two out of the three largest groups of export goods (machinery and equipment; clothing) are primarily related to goods processing. The third group (timber and timber products) is based on Estonian natural resources. Analysing the so-called normal exports, that is exports excluding processed goods[2], gives a somewhat different picture. Timber and timber products rank first then, followed by machinery and equipment, food products, and furniture and other industrial goods. The high share of machinery and equipment in normal exports is slightly illusive, though. Namely, EU accession brought along various legislative amendments (incl. amendments to the Value Added Tax Act). Consequently, it is more cost-effective to bring in goods, which were previously registered under processed goods, as ordinary imports to be processed in the importing country and then re-exported as normal exports. The annual volume of normal exports of machinery and equipment confirms that. Before the EU accession it reached maximum 4.5 billion kroons, whereas post-accession figures climbed robustly: to 14.6 billion kroons in 2004; 25.8 billion in 2005 and 28.4 billion in 2006. The volume of machinery and equipment re-exported after processing naturally declined, respectively.

[2] Goods imported to Estonia for processing and then re-exported.

Considering the imports and exports of goods by the categories of final consumption, we can see that industrial raw materials formed the largest share in imports as well as exports. Capital and consumer goods followed (see Figure 4 and 5). The share of imported transport vehicles was also quite considerable. The imports and exports of fuels and lubricants, which all in all ranked fifth, have gained momentum in the past few years under consideration.

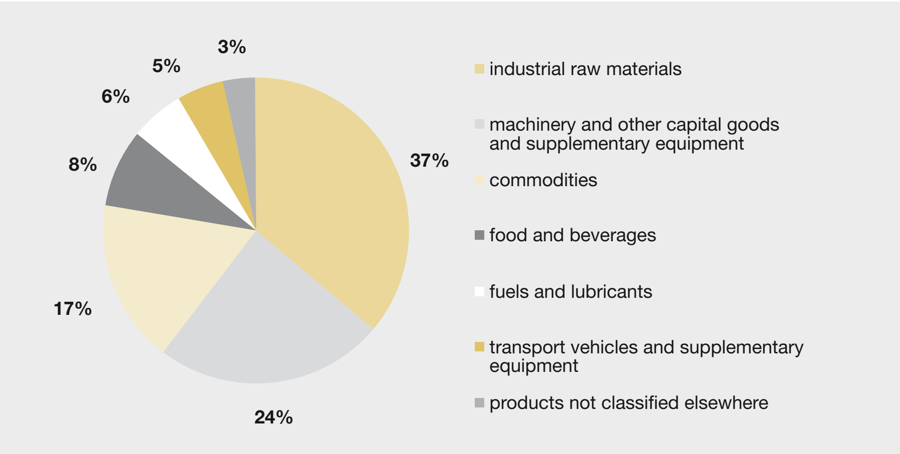

Figure 4. Exports by final consumption in 1994–2006

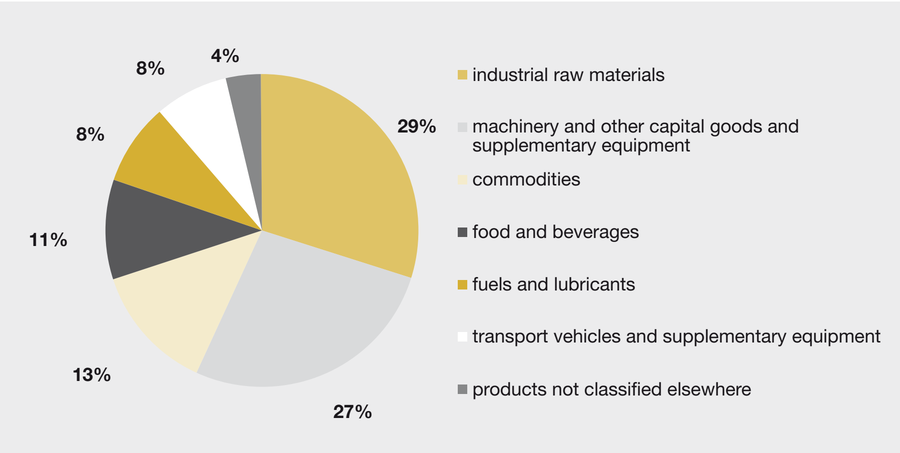

Figure 5. Imports by final consumption in 1994–2006

In 1994, the imports of this group of goods was only 2.6 billion kroons; in 2006 – as much as 25.8 billion kroons. Export figures stood at 0.7 and 19.1 billion kroons (see Figures 6 and 7). Fuel deliveries have increased mostly owing to motor fuels imported from Russia, then processed in Estonia and re-exported.

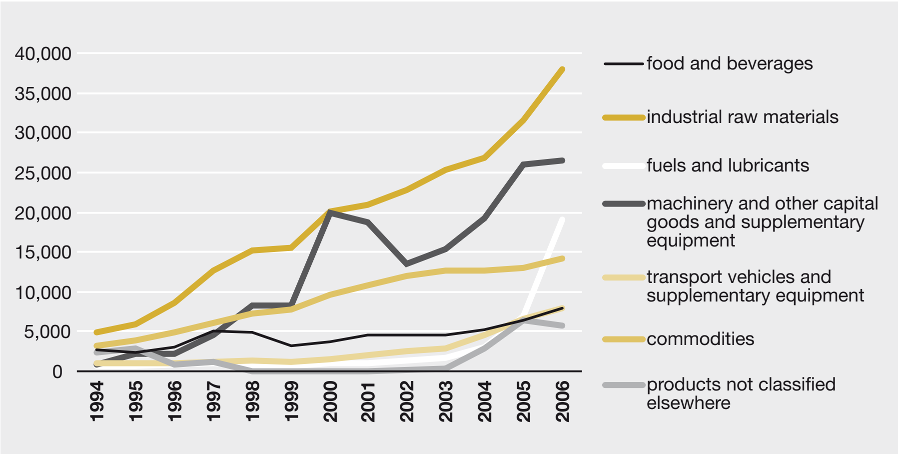

Figure 6. Exports by final consumption (EEK m)

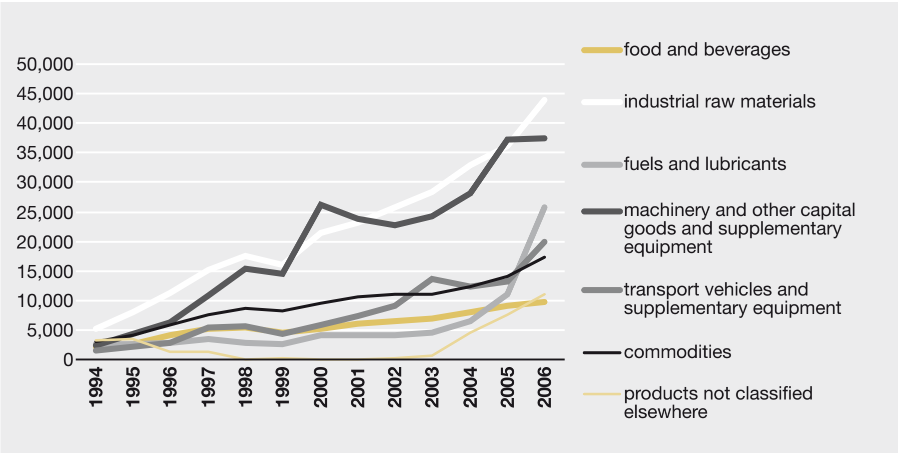

Figure 7. Imports by final consumption (EEK m)

The imports and exports of goods were rather concentrated across countries during 1994–2006. The top five of export partners was similar to that of import partners: Finland, Sweden, Latvia, Germany and Russia; only in a slightly different ranking in imports (see Table 2). Trade with the five major partners accounted for 66% and for 77% as regards the ten largest partners (both in terms of imports and exports).

Table 2. Exports and imports by major trade partners (EEK m)

Target country	Exports (1994–2006)	Share (%)	Trading country	Exports (1994–2006)	Share (%)
Finland	166,064.7	24.2	Finland	250,512.9	26.3
Sweden	103,805.4	15.1	Germany	109,832.7	11.5
Latvia	54,397.7	7.9	Sweden	91,119.7	9.6
Germany	49,907.4	7.3	Russia	89,156.6	9.4
Russia	41,324.1	6.0	Latvia	41,807.0	4.4
Lithuania	27,885.0	4.1	Lithuania	39,236.1	4.1
United Kingdom	26,142.5	3.8	Netherlands	35,251.8	3.7
Denmark	23,687.2	3.5	Denmark	25,925.6	2.7
United States	21,226.7	3.1	Poland	25,608.7	2.7
Norway	18,824.8	2.7	Italy	25,235.9	2.7
Other	152,732.8	22.3	Other	217,816.6	22.9
Total	685,998.3	100.0	Total	951,503.5	100.0

Estonia's closest neighbour Finland has been holding the first place in goods imports and exports during the entire period under review. Nearly half of Estonia's total exports to Finland has comprised machinery and equipment (primarily mobile communication devices and their components). The next largest groups have been textile products (ready-made clothes, sweat suits, bed linen etc.) and timber and timber products. Imports from Finland to Estonia also consisted of electronic equipment and components as well as transport vehicles (mostly motor cars), iron and steel constructions and clothing. The imports of motor cars from Finland have increased over ten times within these thirteen years, whereas in 2006 the year-on-year growth rate was 52%. However, the imports of transport vehicles from Finland appears to be slowing, as in the first nine months of 2007 it reached only 47% of the total of 2006.

The other major partner country, Sweden, ranked second in exports and third in imports. Exports to Sweden has primarily consisted of electronic, timber and textile products. Imports have comprised electronic equipment, chemical products (plastic products, paints and varnishes), clothing (textile in particular), motor vehicles and their components as well as metal products. The imports of transport vehicles from Sweden have also increased ten times with years. The figures for 2007 show an upward trend as well: in the first nine months alone, the imports of motor vehicles have increased by 97% year-on-year (from 1.9 to 3.7 billion kroons).

The main export items sent to Latvia included chemical products (inorganic compounds and medicines) and food products (table water, pork and fish products); the main import items were textile products (cotton and ready-made clothes) and chemical products (medicines and plastic products).

Germany has been importing mostly timber and timber products (prefabricated wooden buildings, construction components and furniture), but also electronic equipment and textile products (cotton, bed linen and ready-made clothes). Imports from Germany has consisted of machinery and equipment (besides electronic equipment also computers and computer components), transport vehicles (motor cars, trucks and trailers) and various chemical products.

As far as trade with Russia is concerned, there have been ups and downs. In 1994, Russia imposed double customs duties on Estonia, which curbed exports to Russia and forced businesses to apply various interesting trading schemes. For instance, goods coming from Estonia were stored in customs warehouses with their actual prices, whereas considerably lower prices were indicated on the declarations when importing them to Russia. Another scheme was to export goods to Russia via neighbouring countries. Consequently, exports to Russia amounted to 3–4 billion kroons per year during 1994–2004, and even below 2 billion kroons during 2000–2002.

Imports have posted somewhat better results, increasing from 3.2 billion kroons in 1994 to 9.7 billion in 2004. After Estonia's accession to the EU, Russia had to abolish the double customs duties on Estonia's goods, which boosted both exports and imports: the former increased by 50% in 2005 as well as 2006 and the latter by 22% and 84%, respectively. The robust growth in imports in 2006 stemmed from the large volume of fuels imported for processing, as mentioned above.

The April riots that took place in Tallinn in 2007 have affected primarily imports: in the first nine months of 2007, goods imports from Russia constituted 67% and exports 83% of the previous year's total. Comparing the first three quarters of 2007 to the same period in 2006, it appears that exports to Russia have grown by 13%, whereas imports have declined by 14%.

During the thirteen years under review, mostly food products have been exported to Russia: fish and dairy products, alcoholic beverages and chocolate. The second most common export item has been transport vehicles (motor cars and also safety belts), followed by machinery and equipment, and chemical products. Mineral products are the biggest import item, largely owing to the recent increased volumes of motor fuels imported for internal supply and processing. Natural gas has formed nearly 25% of the imports of mineral products. The second largest goods group after mineral products has been timber and timber products (primarily unprocessed or little processed) and metal products (steel and scrap metal).

With regard to major trade partners, in the thirteen years under consideration Estonia has had a surplus of goods with Sweden, Latvia, Norway and the United States. Estonia has recorded the largest trade deficits with Finland, Germany and Russia.

CONCLUSION

In conclusion, we may say that although the foreign trade deficit has been gradually increasing every year, the surpluses on services and transfers accounts have helped to reduce the deficit. Given the cooling of the economy, the stronger growth of imports compared to exports is expected to slow, and thus reduce the foreign trade deficit.